

Improve the Economic Vitality of Businesses and Individuals

Tollgate #1

1. Key indicators that will provide the best evidence to the citizen that this result is being achieved.

Indicators	Same, Modified, New?
People with have jobs: Percent of prime working age population employed	Same
Individuals will be Prosperous: a. Median Household annual income (adjusted for inflation) b. percent of households with incomes below the federal poverty line	Same Same
Businesses will be successful: a. Percent increase in gross business income b. Percent increase in total employment c. Business diversification....*	Modified Same new

*We need some help from the guidance team thinking about how to measure the extent to which the economy is comprised of a healthy mix of businesses, particularly those of different sizes. We feel this is important because strategies for creating a good business environment are different for larger and smaller firms.

2. The Cause and Effect Map for the Result Area

(see attached document)

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3. An initial assessment of the success or failure of current strategies

A. Does the current budget include funding for all of the significant strategies identified by the teams last time? Which strategies were not funded in the budget?

We are still sorting out some of the issues related to comparing our recommendations to what was actually funded in the budget. Based on what we currently know, we feel that:

- Market development fared pretty well and a few of the increases we recommended were funded, but not in the same amounts as we recommended.
- We recommended significant increases in research programs in strategic industries and for technology commercialization. For the most part, these did not get funded.
- We also recommended new funding for technical assistance for small businesses, which also did not get funded.
- For the “reduce cost” strategy, we recommended extension of the R&D tax incentives, which was funded.
- Some funding was also provided for streamlining permitting and providing funding for the planning required to do that, but not at the levels we recommended.
- Regarding infrastructure, the 03-05 budget included significant investments, including an increase in the PWTF, primarily because their dedicated fund accounts have increased. CERB funding was also increased, but we did not increase infrastructure funding nearly as much as was recommended by the POG group.
- We did not fund the planning and leadership programs or increased economic development support for local communities.

In summary, the 03-05 budget included most of what had been funded in the past, and a few small increases in funding, many of which were recommended by the POG group. However, there were many investments we did recommend that were not made.

Also, many of the items we did not purchase were funded in the budget. These include professions regulation and regulation of horse racing and gambling. We also had not purchased the Liquor Control Board or the Lottery.

Some of these discrepancies point to the difficulty of making policy in the budget in the presence of significant dedicated funds.

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B. Looking at the performance and indicator information available to you at this time, how would you describe progress in achieving this result?

Some of our performance indicator data are lagged by several years, so it is difficult to tell whether there has been much progress. Here is what we do know:

- The percentage of working age people employed fell from 81.2% in 2000 to 77.5% in 2002;
- Median Household income declined slightly each year from 2000 to 2003.
- The percentage of people in poverty increased each year from 1999 to 2002
- Gross Business income also fell each year from 2000 to 2002, with the biggest drop between 2001 and 2002. In 2003, gross income increased slightly.
- Total employment fell in 2000 and 2001 but began to recover in 2002 and 2003.
- The unemployment rate is (March 2004) 6.5%. Unemployment rose from a low of 4.3% in September of 1999 to 8.1 percent in February 2003. It has fallen since then to the March 2004 rate of 6.5 %.

Much of the recent improvement is due to slow recovery from the recession. It is difficult to disentangle the effects of recovery from those of budget policy.

C. What are the most significant areas of success in this result area today?

Its really too early to tell what successes have been made in this area since the 03-05 budget was enacted. We did win the 7E7 bid, so that is a recruitment and retention success—however, the funds spent on that recruitment were not driven by the POG process. It remains to be seen what the economic impact will be of that success.

In both the 2003 and 2005 legislative session, there was a lot of emphasis on the strategy of cost reduction for businesses, primarily through tax reductions and regulatory reform. It's a stretch to say that that has had a role in the recovery of gross business income, but I suppose it is possible.

D. Where do you see the most significant performance gaps? Do these gaps represent the failure of a strategy, the failure to fund a given strategy, or something else?

The urban/rural divide is a significant performance gap that continues even after years of trying to address it. While the urban counties suffered greatly from the recession, some rural areas suffer from persistently high unemployment rates that are difficult to address. We wonder whether a big infusion of infrastructure money that we recommended (but was not funded) could have led to better results in rural areas.

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E. Where are the most significant opportunities to improve results?

We have anecdotal evidence to suggest that economic development infrastructure investment, particularly if it is strategic and coordinated with other efforts such as land use regulation and workforce training, can be a very effective tool for development, particularly in rural areas.

Very little widely accepted evidence is available regarding the effectiveness of most economic development strategies. However, we have found evidence that technical assistance of individual firms does help improve their survival. That does not necessarily mean it is the state's responsibility to fund or conduct those activities. We must examine that activity in the context of activities of other entities (federal, local, nonprofit).

We are searching for additional evidence on the effectiveness of these programs.